LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 6934 | **DATE PREPARED:** Jan 5, 2001
BILL NUMBER: HB 2076 | **BILL AMENDED:**

SUBJECT: Expenditure Limitations.

FISCAL ANALYST: Diane Powers
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FUNDS AFFECTED: X **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill limits the annual percentage increase in state expenditures to the lesser of: (1) 6%; or (2) the sum of the percentage increase in state population plus the rate of inflation. This bill allows voters or two-thirds of the members of the General Assembly to authorize additional spending.

Effective Date: January 1, 2002.

Explanation of State Expenditures: This bill establishes a maximum annual percentage change for state government expenditures to be the lesser of 1) inflation plus the percentage change in Indiana population or 2) 6%. If revenues exceed the expenditure limit, the excess shall be refunded in the next fiscal year except an amount that a majority of the voters voting in a general election agree to apply toward an increase in allowable spending. The General Assembly may also authorize spending that exceeds the expenditure limit if a joint resolution is adopted by two-thirds of the members of both the House and Senate.

The bill allows individuals to file a lawsuit to enforce the state expenditure limits. Successful plaintiffs are allowed costs and reasonable attorney fees. The state may recover costs and reasonable attorney fees if a suit is ruled frivolous.

Revenue collected, kept, or spent in violation of this statute for four fiscal years preceding the date the lawsuit is filed shall be refunded with ten percent annual simple interest commencing for each fiscal year on the date the state exceeds the spending limitation.

The state may use any reasonable method to refund revenues which are in excess of the spending limits including temporary tax credits or rate reductions. Refunds do not need to be proportional when prior payments are impractical to identify or return. Refund methods are also subject to judicial review.

This bill applies to appropriations beginning in FY 2003. According to the June 30, 2000, Surplus Statement, FY 2001 budgeted appropriations are $10,052.3 M. The average annual change in CPI for the last five calendar years has been 2.4%. The average annual change in population has been less than 1%. Depending on the level of inflation and change in population, future expenditure increases could be restricted to approximately 3% or 4%. The December 19, 2000, Revenue Forecast also projects a 5.4% increase in General Fund and Property Tax Replacement Fund revenue from FY 2002 to FY 2003. There is no official forecast of revenue collections for FY 2004 and beyond.

The impact on state spending and the amount of revenue which would be available for refund is subject to legislative, executive, and judicial actions.

Background Information: The average annual change in the CPI and population for the last five years, as well as the allowable percentage change in state expenditures as set out in this bill, are identified below.

Calendar Years	% Change CPI	% Change in Pop	Max Increase %
CY 94 - 95	2.80%	.8%	3.60%
CY 95 - 96	2.93%	.7%	3.63%
CY 96 - 97	2.34%	.6%	2.94%
CY 97 - 98	1.55%	.6%	2.15%
CY 98 - 99	2.19%	.6%	2.79%

Explanation of State Revenues:

Explanation of Local Expenditures: Distributions of state revenue to local units of government are dependent on the disposition of state appropriations.

Explanation of Local Revenues:

State Agencies Affected: Attorney General's Office, State Budget Agency, General Assembly.

Local Agencies Affected: Courts.

Information Sources: GF & PTRF Statement of Combined Estimated Unappropriated Reserve, June 30, 2000 - State Budget Agency; December 19, 2000 State Revenue Forecast- Revenue Forecast Technical Committee; U.S. Census Bureau; Bureau of Labor Statistics.